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## ISSUE REVIEW

Fiscal Services Division

July 1, 2019



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## State of Iowa General Fund Budget Projection (FY 2021 - FY 2026)

### ISSUE

This **Issue Review** examines the potential impact of [SF 2417](#) (2018 Income and Sales Tax Modifications Act) over a five-year projection period of FY 2022 to FY 2026. The Act made significant changes to Iowa's tax system, many of which will be implemented over the next several years.

The **Issue Review** incorporates the revenue projections into a General Fund budget model in an attempt to provide a general understanding of the potential spending capacity of the General Fund over the five-year projection period, assuming full implementation of [SF 2417](#). To accomplish this, the **Issue Review** examines three scenarios of potential impact on appropriations.

### BACKGROUND

The State General Fund is Iowa's main operating fund and the fund from which most discretionary spending is provided. Iowa's General Fund revenue budget consists largely of revenues derived from the State individual income tax and the State sales and use tax.

The Iowa Code specifies certain requirements that must be followed by the Legislature and Governor during the budget development process. A key requirement is adherence to an expenditure limitation for adoption of a General Fund budget for the subsequent fiscal year. In general, the General Fund expenditure limitation is 99.0% of the estimated revenue for the next fiscal year, which begins on July 1. Additional information on the General Fund budget process is provided in **Appendix A**.

### CURRENT STATUS OF THE GENERAL FUND BUDGET (FY 2020 AND FY 2021)

The outlook for the General Fund budget for FY 2020 and FY 2021 is stable. After experiencing budget challenges in FY 2017 and FY 2018 due to declining revenue estimates while the fiscal years were in progress, General Fund revenues are on the rise. The net revenues for FY 2020 and FY 2021 are based on the Revenue Estimating Conference (REC) estimates established in March 2019.

The total moneys available for FY 2020 are estimated at \$7.916 billion, including \$7.839 billion in net receipts and a carryforward balance from FY 2019 of \$76.7 million. This is an increase of \$111.4 million (1.4%) compared to FY 2019 (**Table 1**). Appropriations (before reversions) are estimated to total \$7.704 billion (1.4%) in FY 2020. For estimating purposes, the FY 2020 appropriations have been adjusted to include an anticipated supplemental appropriation of \$60.0 million for the Medicaid program. Although FY 2020 capitation rates have not been finalized, the supplemental appropriation will fund a projected capitation rate increase for the

contracted services of the managed care organizations (MCOs) that implement Iowa's Medicaid program and a projected shortfall of \$17.1 million as of June 2019.

The total estimated appropriations for FY 2020 represent an increase of \$173.3 million (2.3%) compared to estimated FY 2019. Based on the above assumptions, the FY 2020 estimated surplus is \$217.1 million.

The Legislative Services Agency's (LSA) preliminary projection for the FY 2021 General Fund budget shows an estimated surplus of \$368.7 million. The total funds available for FY 2021 are estimated at \$8.222 billion, an increase of \$305.7 million (3.9%) compared to estimated FY 2020. The FY 2021 budget includes estimated net General Fund revenues of \$8.034 billion and a surplus carryforward of \$187.7 million. The LSA's preliminary projection for appropriations in FY 2021 assumes an increase of 2.0% (\$154.1 million). This rate of change is below the 10-year growth rate of 4.1% (FY 2011 to FY 2020), but more than the 1.5% rate of growth over the previous five years (FY 2016 to FY 2020). The LSA will re-examine the FY 2021 budget projections in December 2019, prior to the 2020 Legislative Session.

**Table 1**  
**State of Iowa General Fund Budget**  
(In Millions)

	Estimated FY 2019	Estimated FY 2020	FY 2020 vs FY 2019	Percent Change	LSA		
					Projection FY 2021	FY 2021 vs FY 2020	Percent Change
<b>Funds Available:</b>							
Net Receipts	\$ 7,733.4	\$ 7,839.1	\$ 105.7	1.4%	\$ 8,033.8	\$ 194.7	2.5%
Surplus Carryforward	71.0	76.7	5.7		187.7	111.0	
<b>Total</b>	<b>\$ 7,804.4</b>	<b>\$ 7,915.8</b>	<b>\$ 111.4</b>	<b>1.4%</b>	<b>\$ 8,221.5</b>	<b>\$ 305.7</b>	<b>3.9%</b>
<b>Appropriations and Expenditures:</b>							
Enacted Appropriations	\$ 7,361.8	\$ 7,643.7	\$ 281.9		\$ 7,857.8	\$ 214.1	
Supplemental	168.6	60.0 <sup>1</sup>	- 108.6		0.0	- 60.0	
Subtotal	\$ 7,530.4	\$ 7,703.7	\$ 173.3	2.3%	\$ 7,857.8	\$ 154.1	2.0%
Cash Reserve Fund Appropriation	113.1	0.0	- 113.1		0.0	0.0	
<b>Total</b>	<b>\$ 7,643.5</b>	<b>\$ 7,703.7</b>	<b>\$ 60.2</b>		<b>\$ 7,857.8</b>	<b>\$ 154.1</b>	
Reversions	- 5.2	- 5.0	0.2		- 5.0	0.0	
<b>Net Appropriations</b>	<b>\$ 7,638.3</b>	<b>\$ 7,698.7</b>	<b>\$ 60.4</b>	<b>0.8%</b>	<b>\$ 7,852.8</b>	<b>\$ 154.1</b>	<b>2.0%</b>
<b>Ending Balance – Surplus</b>	<b>\$ 166.1</b>	<b>\$ 217.1</b>	<b>\$ 51.0</b>		<b>\$ 368.7</b>	<b>\$ 151.6</b>	

<sup>1</sup> For estimating purposes, FY 2020 includes an estimated supplemental appropriation of \$60.0 million for the Medicaid program to fund a projected capitation rate increase for the contracted services of the MCOs that implement Iowa's Medicaid program and an estimated \$17.1 million funding shortfall as of June 2019. The FY 2020 capitation rates have not yet been finalized.

**Reserve Funds.** The Cash Reserve Fund and the Economic Emergency Fund are both projected to have balances at the statutory maximum for FY 2020 and FY 2021. The balances are estimated to total \$786.8 million in FY 2020 and \$803.3 million in FY 2021, which is equal to 10.0% of the Adjusted Revenue Estimate for both years (**Table 2**).

<b>Reserve Fund Balances</b>	Estimated FY 2019	Estimated FY 2020	Estimated FY 2021
Cash Reserve Fund	\$ 571.6	\$ 590.1	\$ 602.5
Economic Emergency Fund	190.5	196.7	200.8
<b>Total</b>	<b>\$ 762.1</b>	<b>\$ 786.8</b>	<b>\$ 803.3</b>

### **GENERAL FUND REVENUE PROJECTION SIMULATION (FY 2022 – FY 2026)**

For FY 2021, the March 2019 Revenue Estimating Conference (REC) net General Fund revenue projection is used. The revenue estimates used for FY 2022 through FY 2026 are based on historical actual revenue percent growth, adjusted for revenue law changes enacted over the historical years.

The average General Fund revenue growth rate from FY 2001 through FY 2018, after adjusting for the direct revenue impacts of significant revenue law changes enacted during that timeframe, is 3.6%.<sup>1</sup> For the revenue assumptions used in this budget simulation, an average 3.6% rate of base revenue growth is used for fiscal years 2021 through 2026, although the growth rate for each year is not a consistent 3.6%. The assumed base revenue growth rates for FY 2022 and FY 2023 are set in a manner that allows this budget simulation to incorporate the implementation of the contingent individual income tax system established in [SF 2417](#) (2018 Income and Sales Tax Modifications Act) beginning with tax year 2023, the first tax year possible under provision of the law. Specifically, the base revenue growth rate assumptions used in this budget simulation, by fiscal year, are as follows:

- For FY 2022, the assumed base revenue growth rate is 3.93%.
- For FY 2023 through FY 2026, the assumed base revenue growth rate is 3.52%.
- For the combined time frame of FY 2022 through FY 2026, the assumed average base revenue growth rate is 3.60%.

For each projection year of the FY 2022 through FY 2026 time frame, the base revenue growth rate is adjusted for the incremental impact of law changes enacted during the 2018 and 2019 legislative sessions. Most of the revenue law changes were contained in [SF 2417](#). For FY 2021, the law changes are assumed to all be incorporated into the REC projection. For FY 2022 through FY 2026, the calculated base revenue amount is adjusted for the incremental law change revenue adjustments of 2018 and 2019 legislation. The incremental adjustments applied to the annual base revenue amounts are presented in **Table 3**.<sup>2</sup>

<sup>1</sup> The 3.6% average net growth calculation is provided in **Appendix B**.

<sup>2</sup> The Contingent Liabilities Report projection differences for total tax credit redemptions beyond FY 2021 are minimal. For this reason, an adjustment for incremental tax credits utilization changes is not included for FY 2022 through FY 2026.

**Table 3**  
**Incremental Impact of Revenue Law Changes Enacted in 2018**  
(In Millions)

Act	Revenue Provision	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
SF 2417	Individual Income Tax	\$ -23.3	\$ -45.9	\$ -212.6	\$ -86.7	\$ -40.0
SF 2417	Corporate Income Tax	-46.6	-6.9	3.4	-5.1	-5.0
SF 2417	Sales/Use Tax	7.8	8.3	6.1	7.5	5.0
SF 2417	Tax Credits	-0.6	-0.3	-0.2	0.0	0.0
NA	Wayfair Supreme Court Decision	7.4	13.7	-49.0	0.0	0.0
NA	Income Tax Withholding Update	66.4	-45.1	107.5	-18.6	0.0
HF 779	Miscellaneous Tax Changes	-1.0	-0.1	-0.3	0.0	0.0
HF 768	Beginning Farmer Tax Credit	-1.1	-0.5	-0.3	-0.1	0.0
HF 772	Housing Incentives	-3.3	1.0	2.2	0.2	0.3
	<b>Total</b>	<b>\$ 5.7</b>	<b>\$ -75.8</b>	<b>\$ -143.2</b>	<b>\$ -102.8</b>	<b>\$ -39.7</b>

NA = Not Applicable.

Utilizing the base growth rates and law change adjustments outlined above allows this budget simulation to assume an average base revenue growth of 3.6% over the five projection years and also include the contingent individual income tax provisions of [SF 2417](#) (lower tax rates, reduced deductions) starting with tax year 2023.<sup>3</sup>

### **SCENARIOS OF POTENTIAL IMPACT ON APPROPRIATIONS**

For purposes of this *Issue Review*, the revenue projections were entered into the LSA's General Fund budget model. The model was used to produce three budget projection scenarios to illustrate the impact that hypothetical General Fund spending decisions would have on the budget over the projection period. For each scenario, the revenue projections discussed above are the same. The primary difference between the three projections is the assumed rate of change in appropriations for FY 2021 and the maximum rate of appropriations growth (to the nearest tenth of a percent) that could be sustained during the projection period without the projected appropriations exceeding the estimated expenditure limitation for any given fiscal year.<sup>4</sup>

Additional information for each of the three scenarios is provided in **Appendix C**.

**Scenario One.** The first scenario assumes that FY 2021 appropriations would total \$7.859 billion, which represents an increase in spending of \$154.1 million (2.0%) compared to the estimated FY 2020 appropriations.<sup>5</sup> Based on the FY 2021 assumption for Scenario One, a 3.7% annual appropriations growth rate beginning in FY 2022 could be sustained through FY 2026. The 3.7% appropriations growth would result in an average annual spending increase of \$313.1 million from FY 2022 through FY 2026.

**Scenario Two.** This scenario assumes that FY 2021 appropriations would total \$7.935 billion, which is an increase of \$261.8 million (3.0%) compared to adjusted FY 2020. Based on this rate of growth in FY 2021, a 3.3% annual rate of appropriations growth could be sustained from

<sup>3</sup> Tax year 2023 is the earliest that the contingent individual income tax provisions of section 133 of [SF 2417](#) may be implemented. Implementation depends on net General Fund revenue reaching two revenue goals. The two necessary revenue goals are: 1) the previous fiscal year ended with net General Fund revenue in excess of \$8,314.6 million, and 2) the previous fiscal year experienced net revenue growth of at least 4.0%.

<sup>4</sup> Iowa Code section [8.54](#) requires the Legislature and Governor to adhere to an expenditure limitation when establishing the State's annual General Fund budget. In general, Iowa's expenditure limitation law requires lawmakers to spend no more than 99.0% of the net revenue estimate for the next fiscal year, which begins July 1.

<sup>5</sup> For the calculation of the FY 2021 appropriation for each scenario, the percent change was applied to FY 2020 appropriations.

FY 2022 through FY 2026. The 3.3% growth would result in an average annual spending increase of \$279.7 million from FY 2022 through FY 2026.

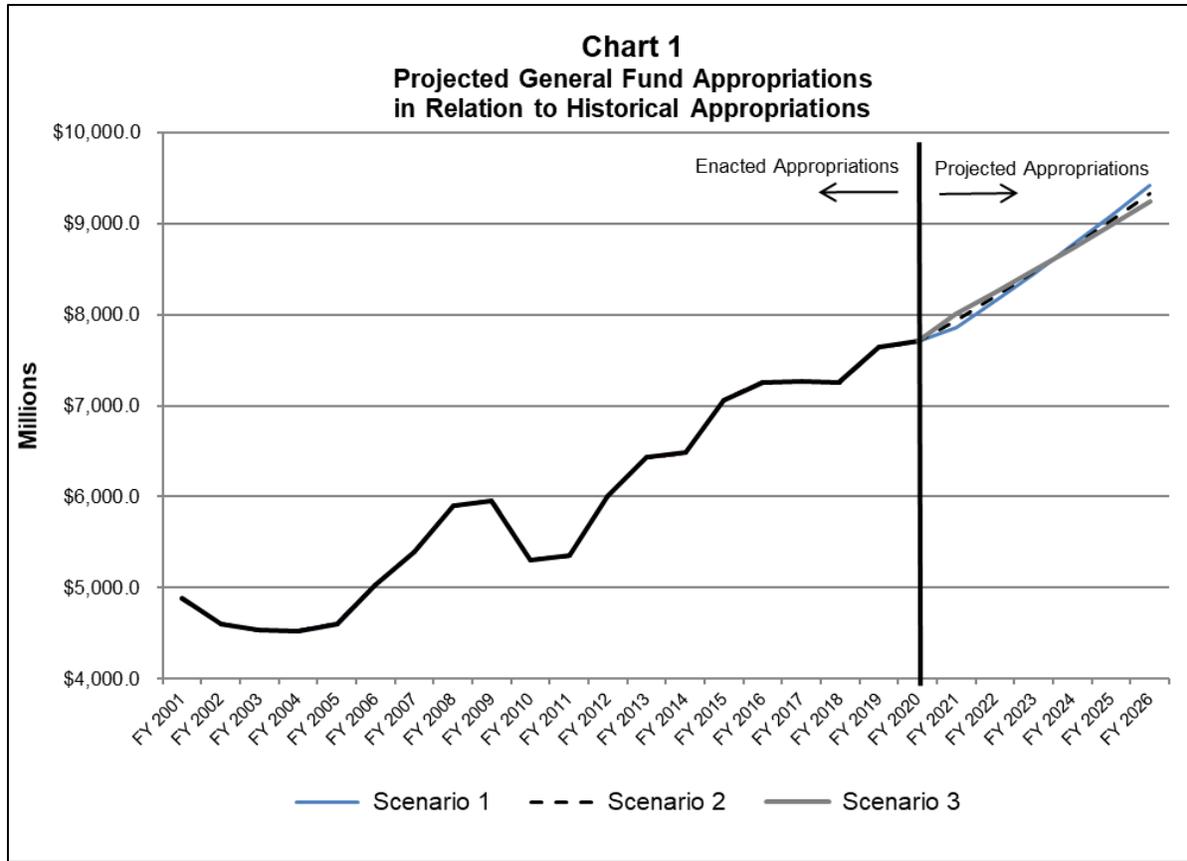
**Scenario Three.** Scenario Three assumes total appropriations of \$8.012 billion in FY 2021. This represents an increase of \$232.3 million (4.0%) compared to adjusted FY 2020. Based on this rate of growth in FY 2021, a 2.9% annual rate of appropriations growth could be sustained from FY 2022 through FY 2026. The 2.9% growth would result in an average annual spending increase of \$246.2 million from FY 2022 through FY 2026.

**Table 4** summarizes the appropriations growth for each of the three scenarios.

	Base Year FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024	Projected FY 2025	Projected FY 2026	Average Annual Rate of Change	Average Annual Increase
<b>Scenario 1 Appropriations</b>	\$ 7,857.8	\$ 8,148.5	\$ 8,450.0	\$ 8,762.7	\$ 9,086.9	\$ 9,423.1	3.7%	
Annual Dollar Change		\$ 290.7	\$ 301.5	\$ 312.7	\$ 324.2	\$ 336.2		\$ 313.1
<b>Scenario 2 Appropriations</b>	\$ 7,934.8	\$ 8,196.7	\$ 8,467.1	\$ 8,746.6	\$ 9,035.2	\$ 9,333.4	3.3%	
Annual Dollar Change		\$ 261.8	\$ 270.5	\$ 279.4	\$ 288.6	\$ 298.2		\$ 279.7
<b>Scenario 3 Appropriations</b>	\$ 8,011.8	\$ 8,244.2	\$ 8,483.3	\$ 8,729.3	\$ 8,982.4	\$ 9,242.9	2.9%	
Annual Dollar Change		\$ 232.3	\$ 239.1	\$ 246.0	\$ 253.1	\$ 260.5		\$ 246.2

**Chart 1** shows the three appropriations projection scenarios and the enacted appropriations back to FY 2001. As mentioned previously, the average General Fund revenue growth rate from FY 2001 through FY 2018, after certain adjustments, is 3.6%. While there were some significant fluctuations, appropriations enacted during this same period increased at an average annual rate of 2.4%. All three appropriations projections result in annual increases greater than the 2.4% annual average from FY 2001 through FY 2018.

Each of these three appropriations projections use the General Fund surplus carryforward funds for cash-flowing the specified appropriations growth through the projection period. If the carryforward funds were to be reduced or transferred to the Taxpayer Relief Fund, the rate of appropriations growth would be reduced.



**Projected Reserve Fund Balances.** The balances in the State’s reserve funds will be at the statutory maximum for the projection period. Because the statutory maximum requirement is based on the revenue estimates, the Cash Reserve Fund and Economic Emergency Fund balances will be the same for all three projection scenarios. The combined balance is projected to increase from \$803.3 million in FY 2020 to \$921.2 million in FY 2026 (Table 5). This represents an average annual rate of change of 2.8%.

**Table 5**  
**Reserve Fund Balance Projections**  
(Dollars in Millions)

	Base Year FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024	Projected FY 2025	Projected FY 2026
Cash Reserve Fund	\$ 602.5	\$ 626.6	\$ 643.0	\$ 654.9	\$ 670.3	\$ 690.9
Economic Emergency Fund	200.8	208.9	214.3	218.3	223.4	230.3
<b>Total</b>	<b>\$ 803.3</b>	<b>\$ 835.5</b>	<b>\$ 857.3</b>	<b>\$ 873.2</b>	<b>\$ 893.7</b>	<b>\$ 921.2</b>
Annual Dollar Change		\$ 32.2	\$ 21.8	\$ 15.9	\$ 20.5	\$ 27.5
Percent Change		4.0%	2.6%	1.9%	2.3%	3.1%

## **SUMMARY**

The projections included in this **Issue Review** are intended to provide general guidelines to assist in understanding the sustainability of the General Fund budget based on the revenue projections provided.

The revenue projections are based on historical rates of change adjusted to account for significant law changes for FY 2001 through FY 2018. During this period, the State experienced two economic recessions; the effects of these recessions on General Fund revenue collections are incorporated into the 3.6% base growth rate used for the projection period. The revenue projections are further adjusted to account for law changes enacted during the 2018 and 2019 legislative sessions.

Each of the three appropriations projection scenarios is directly correlated to the revenue projections. The interaction of the revenue and appropriations projections when entered into the balance sheet model determine the expenditure limitation, which is the upper limit of allowed spending during a legislative session.

The three appropriations projection scenarios assume different rates of spending increase for FY 2021 to help illustrate the impact on spending over the projection period. The FY 2021 growth rates for appropriations used in this report ranged from 2.0% to 4.0%. Based on these FY 2021 growth rates, the amount of annual spending that could be sustained over the five-year projection period (without exceeding the expenditure limitation) would range from 2.9% to 3.7%.

An important component of these three appropriations projections is that the General Fund surplus carryforward funds would have to be used to cash-flow the appropriations growth through the projection period. If the carryforward funds were to be reduced or transferred to the Taxpayer Relief Fund, the rate of appropriations growth would be reduced. Under current law, the maximum that can be transferred in any given fiscal year from the General Fund surplus to the Taxpayer Relief Fund is \$60.0 million.<sup>6</sup>

Division VI of [SF 2417](#) repeals the \$60.0 million cap on funds that can be annually transferred from the General Fund surplus to the Taxpayer Relief Fund. This provision is applicable beginning in FY 2021. Removing the cap could have a significant impact on future General Fund appropriations. However, estimating the transfers to the Taxpayer Relief Fund for the five-year projection period is not possible as adequate information is not available to calculate the projected transfer amounts.

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<sup>6</sup> The amount that the Taxpayer Relief Fund can receive in a given fiscal year is limited to \$60.0 million or the difference between the actual net General Fund revenue for the preceding fiscal year and the Adjusted Revenue Estimate used in establishing the budget for that fiscal year, whichever is less. Division VI of [SF 2417](#) repeals the \$60.0 million transfer cap beginning in FY 2021.

## APPENDIX A

### **GENERAL FUND BALANCE SHEET AND BUDGET PROCESS**

**Revenue Estimating Conference (REC):** The REC is a three-person panel that meets three times per year to review and establish revenue estimates for the State's General Fund. The REC estimate set at the meeting prior to December 15 is required to be used by the Governor and the General Assembly in preparing the General Fund budget for the fiscal year beginning on the subsequent July 1. If the REC revises the December estimate at its meeting held in March, the Governor and the General Assembly are required to use whichever estimate is lower when calculating the expenditure limitation for the next fiscal year.

**Adjusted Revenue Estimate:** An important aspect of the State budget process is the determination of the Adjusted Revenue Estimate. This number is used to determine three components of the budget:

- The maximum balances that can be retained in the State's reserve funds.
- The expenditure limitation for the next fiscal year's budget, which begins on July 1.
- The amount to be deposited in the Taxpayer Relief Fund.

The Adjusted Revenue Estimate is calculated by adding the net General Fund revenue estimate of the REC (as adopted at the December meeting, or as adopted at a subsequent meeting if the subsequent estimate is lower) to the increase or decrease in estimated net General Fund revenue due to law changes enacted by the General Assembly and signed into law by the Governor.

**Expenditure Limitation:** The primary goal of the expenditure limitation law is to ensure that General Fund revenues exceed expenditures to help lawmakers enact a balanced budget and to build sufficient cash reserves for cash flow and emergency purposes. In calculating the expenditure limitation:

- The base revenue estimate adopted by the REC is multiplied by 99.0%.
- Estimates of new revenue increases due to law changes enacted by the General Assembly that were not included in the REC estimate are multiplied by 95.0%.
- All estimated revenue decreases due to law changes enacted by the General Assembly that were not included in the REC estimate are applied at 100.0%.
- Any excess funds carried forward from the prior year's General Fund surplus are added to the expenditure limitation at 100.0%.

**Reserve Fund Requirements:** The State of Iowa has two reserve funds: the Cash Reserve Fund and the Economic Emergency Fund. At the close of each fiscal year, the General Fund surplus is transferred to the Cash Reserve Fund until the Fund balance reaches 7.5% of the Adjusted Revenue Estimate. Once the Fund balance reaches the 7.5% maximum, the excess is transferred to the GAAP (Generally Accepted Accounting Principles) Deficit Reduction Account if a GAAP deficit exists; otherwise, the excess is transferred to the Economic Emergency Fund. The statutory limit of the Economic Emergency Fund is equal to 2.5% of the Adjusted Revenue Estimate. Any General Fund surplus dollars in excess of the 10.0% total reserve fund requirement are transferred to the Taxpayer Relief Fund and the General Fund.

**Taxpayer Relief Fund:** The amount that the Taxpayer Relief Fund can receive in a given fiscal year is limited to \$60.0 million or the difference between the actual net General Fund revenue

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for the preceding fiscal year and the Adjusted Revenue Estimate used in establishing the budget for that fiscal year, whichever is less. Any General Fund surplus dollars in excess of the amount transferred to the Taxpayer Relief Fund are transferred to the General Fund. [Senate File 2417](#) repeals the \$60.0 million transfer cap effective FY 2021.

## APPENDIX B

From FY 2001 to FY 2018, Iowa net General Fund revenue increased 60.0%, from \$4.539 billion to \$7.263 billion.<sup>7</sup> The average annual rate of growth was 2.8%. However, over that time frame, several significant revenue law changes were enacted that noticeably reduced the overall revenue growth rate. To make informed projections about future revenue totals, it is necessary to estimate the natural rate (the rate of revenue growth that would have occurred had revenue changes not been enacted) of net revenue growth. **Table B-1** adjusts actual net General Fund receipts for the FY 2001 through FY 2018 time frame for major revenue law changes enacted during that time. The adjusted percent change in net General Fund revenue growth is displayed in the final column. As this final column shows, the annual rate of revenue growth fluctuates substantially. The average of the 17 annual rates of growth is 3.6%.<sup>8</sup> This budget simulation is based on an average projected rate of net revenue growth, including transfer revenue,<sup>9</sup> of 3.6% for FY 2022 through FY 2026.

Fiscal Year	Net General Fund Receipts *	Cigarette and Tobacco Tax	Gambling Tax	Insurance Premium Tax	Social Security Income Exclusion	Utility Sales Tax	Commerce Fees	Veterans Home Net Budgeting	Tax Credits	Total Law and Tax Credit Changes	Adjusted Net General Fund Receipts	Percent Change
FY 2001	\$ 4,538.5	\$ -96.3	\$ -60.0	\$ 0.0	\$ 0.0	\$ 10.0	\$ 0.0	\$ 0.0	\$ 93.3	\$ -53.0	\$ 4,485.5	
FY 2002	4,375.0	-95.1	-60.0	0.0	0.0	8.8	0.0	0.0	108.3	-38.0	4,337.0	-3.3%
FY 2003	4,354.8	-95.5	-60.0	0.0	0.0	26.5	0.0	0.0	123.3	-5.7	4,349.1	0.3%
FY 2004	4,626.0	-95.1	-60.0	16.5	0.0	44.2	0.0	30.4	138.3	74.3	4,700.3	8.1%
FY 2005	4,840.6	-96.1	-60.0	39.8	0.0	61.9	0.0	30.4	153.3	129.3	4,969.9	5.7%
FY 2006	5,238.5	-98.7	-60.0	52.1	0.0	97.6	0.0	30.4	174.4	195.8	5,434.3	9.3%
FY 2007	5,577.7	-134.1	-60.0	71.3	12.0	88.5	0.0	30.4	197.6	205.7	5,783.4	6.4%
FY 2008	6,019.6	-250.7	-60.0	65.7	34.0	92.7	0.0	30.4	237.1	149.2	6,168.8	6.7%
FY 2009	5,749.0	-238.8	-60.0	52.9	44.3	107.8	0.0	30.4	270.7	207.4	5,956.4	-3.4%
FY 2010	5,492.7	-232.1	-66.0	52.1	62.6	106.2	26.2	30.4	213.3	192.8	5,685.5	-4.5%
FY 2011	5,813.4	-227.3	-66.0	57.1	72.5	110.3	26.2	30.4	262.0	265.2	6,078.6	6.9%
FY 2012	6,202.4	-119.4	-66.0	59.6	83.0	116.1	26.2	30.4	265.7	395.6	6,598.0	8.5%
FY 2013	6,651.8	-121.4	-40.0	61.7	94.7	118.0	26.2	30.4	265.2	434.8	7,086.6	7.4%
FY 2014	6,299.9	-1.4	0.0	62.1	107.9	122.4	26.2	30.4	320.5	668.1	6,968.0	-1.7%
FY 2015	6,692.1	0.0	0.0	64.5	118.1	127.6	26.2	30.4	332.8	699.5	7,391.6	6.1%
FY 2016	6,791.7	0.0	0.0	70.4	122.3	130.2	26.2	30.4	363.8	743.3	7,535.0	1.9%
FY 2017	6,964.5	0.0	0.0	67.5	125.4	130.3	26.2	30.4	367.9	747.8	7,712.3	2.4%
FY 2018	7,262.9	0.0	0.0	71.6	133.2	136.3	26.2	30.4	386.8	784.6	8,047.5	4.3%
										Average of the 17 years of Annual Growth Percentages ---->		3.6%

\* Net General Fund Receipts excludes transfer revenue.

The revenue law changes incorporated into the adjustments presented in **Table B-1** are:

- **Cigarette and Tobacco Tax** — At the beginning of the time frame, all cigarette and tobacco tax revenue was deposited to the State General Fund. By the end of the time frame, all such revenue was deposited to the Health Care Trust Fund. To make comparisons between fiscal years equal, actual cigarette and tobacco tax revenue is subtracted from net General Fund receipts.
- **Gambling Tax** — At the beginning of the time frame, \$60.0 million in annual gambling tax revenue was deposited to the State General Fund. By the end of the time frame, all

<sup>7</sup> This historical analysis is based on actual Iowa net General Fund revenue, excluding transfer revenue. Transfer revenue amounts, while consistent in most fiscal years, can fluctuate significantly around revenue downturns as the Legislature transfers money from other funds in order to replace budgeted revenue shortfalls. Transfer revenue is excluded in the historical analysis because its presence would mute the impact of recessions on revenue growth.

<sup>8</sup> Economic recessions significantly influence the revenue growth rate. During the time frame of FY 2001 to FY 2018, there were two national recessions; the first began March 2001 and the second began December 2007. Each of these recessions significantly reduced Iowa's net revenue growth for two fiscal years. Excluding the four recession-impacted years, the average growth rate was 5.6%. For the four recession-impacted years (fiscal years 2002, 2003, 2009, and 2010), the average growth rate was -2.8%.

<sup>9</sup> Although transfer revenue was excluded in the determination of the average historical revenue growth rate, transfer revenue needs to be included when projecting total revenue.

gambling tax revenue was deposited to different funds. To make comparisons between fiscal years equal, actual gambling tax revenue is subtracted from net General Fund receipts.

- Insurance Premium Tax Reduction — The 2002 Legislature reduced the State tax on insurance premiums from 2.0% to 1.0%. The projected negative impact on State General Fund receipts is added back as an adjustment. The projected impact is provided in a [2009 Issue Review](#). General Fund revenue impacts beyond FY 2008 were developed using the actual rates of insurance premium tax growth since that fiscal year.
- Social Security Income Exclusion — The 2006 Legislature excluded Social Security income from the calculation of taxable income for individual income tax purposes. The projected negative impact on State General Fund receipts is added back as an adjustment. The projected impact is provided in the *Fiscal Note* for [SF 2408](#) (2006 Social Security Tax Exclusion Act). General Fund revenue impacts beyond FY 2015 were developed using the actual rates of gross individual income tax growth since that fiscal year.
- Utility Sales Tax — The 2001 Legislature removed the State sales tax from residential energy utility purchases. The projected negative impact on State General Fund receipts is added back as an adjustment. The projected impact is provided in the *Fiscal Note* for [HF 1](#) (2001 Residential Energy Utility Sales Tax Act). General Fund revenue impacts beyond FY 2007 were developed using the actual rates of gross sales/use tax growth since that fiscal year.
- Commerce Division Fees — The 2009 Legislature changed the deposit destination for certain fees paid by entities regulated by the Department of Commerce. The projected negative impact on State General Fund receipts is added back as an adjustment. The annual impact is assumed to be constant.
- Veterans Home Net Budgeting — The 2002 Legislature changed the deposit destination for certain reimbursements received by the Iowa Veterans Home. The projected negative impact on State General Fund receipts is added back as an adjustment. The annual impact is assumed to be constant.

Tax Credits — The major law changes listed in **Table B-1** and discussed above do not include law changes enacted during the time frame that are associated with new and existing tax credits. Two large changes enacted over the years include an increase in the Earned Income Tax Credit and the creation of a Historic Preservation and Cultural and Entertainment District Tax Credit. The use of existing tax credits, like the Research Activities Tax Credit, has also expanded significantly. For FY 2005 through FY 2018, tax credit redemption totals provided in Department of Revenue periodic [Contingent Liabilities Reports](#) are used for the adjustment. For FY 2001 through FY 2004, years that predate the Contingent Liability report series, the LSA provided the estimated amounts.

## APPENDIX C

<b>General Fund Budget Projection — Scenario 1 (2.0% Appropriations Growth in FY 2021)</b>											
(Dollars in Millions)											
<b>Projected Base Revenue Growth</b>											
Actual	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est
FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026			
				<b>3.93%</b>	<b>3.52%</b>	<b>3.52%</b>	<b>3.52%</b>	<b>3.52%</b>			
<b>Funds Available:</b>											
Base Revenues <sup>1</sup>	\$ 7,383.9	\$ 7,733.6	\$ 7,848.4	\$ 8,050.0	\$ 8,349.5	\$ 8,649.3	\$ 8,875.3	\$ 9,039.5	\$ 9,251.3		
Revenue Adjustments - Tax Law Changes	0.0	-0.2	-9.3	-16.2	5.7	-75.8	-143.2	-102.8	-39.7		
Subtotal	7,383.9	7,733.4	7,839.1	8,033.8	8,355.2	8,573.5	8,732.1	8,936.7	9,211.6		
Surplus Carryforward	0.0	71.0	76.7	187.7	326.5	506.4	609.1	553.0	370.3		
<b>Total Funds Available</b>	<b>7,383.9</b>	<b>7,804.4</b>	<b>7,915.8</b>	<b>8,221.5</b>	<b>8,681.8</b>	<b>9,080.0</b>	<b>9,341.2</b>	<b>9,489.7</b>	<b>9,581.9</b>		
<b>Expenditure Limitation</b>	<b>7,837.4</b>	<b>8,141.2</b>	<b>8,598.2</b>	<b>8,994.2</b>	<b>9,253.9</b>	<b>9,400.4</b>	<b>9,489.8</b>				
<b>Appropriations<sup>2</sup></b>	<b>7,261.1</b>	<b>7,361.8</b>	<b>7,643.7</b>	<b>7,857.8</b>	<b>8,148.5</b>	<b>8,450.0</b>	<b>8,762.7</b>	<b>9,086.9</b>	<b>9,423.1</b>		
Estimated Medicaid Supplemental	0.0	168.6	60.0	0.0	0.0	0.0	0.0	0.0	0.0		
Subtotal	7,261.1	7,530.4	7,703.7	7,857.8	8,148.5	8,450.0	8,762.7	9,086.9	9,423.1		
Cash Reserve Fund Appropriation	0.0	113.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Appropriations</b>	<b>7,261.1</b>	<b>7,643.5</b>	<b>7,703.7</b>	<b>7,857.8</b>	<b>8,148.5</b>	<b>8,450.0</b>	<b>8,762.7</b>	<b>9,086.9</b>	<b>9,423.1</b>		
Reversions	-4.5	-5.2	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0		
<b>Net Appropriations</b>	<b>7,256.6</b>	<b>7,638.3</b>	<b>7,698.7</b>	<b>7,852.8</b>	<b>8,143.5</b>	<b>8,445.0</b>	<b>8,757.7</b>	<b>9,081.9</b>	<b>9,418.1</b>		
<b>Ending Balance - Surplus</b>	<b>\$ 127.3</b>	<b>\$ 166.1</b>	<b>\$ 217.1</b>	<b>\$ 368.7</b>	<b>\$ 538.2</b>	<b>\$ 635.0</b>	<b>\$ 583.5</b>	<b>\$ 407.8</b>	<b>\$ 163.8</b>		
<b>Under (Over) Expenditure Limitation</b>			\$ 133.7	\$ 283.4	\$ 449.7	\$ 544.2	\$ 491.2	\$ 313.5	\$ 66.7		
<b>Notes:</b>											
	<sup>1</sup> The Base Revenues for FY 2019 - FY 2021 were set by the Revenue Estimating Conference in March 2019.										
	<sup>2</sup> The projected growth rate for appropriations for FY 2022 – FY 2026 is 3.7%.										

### APPENDIX C (Cont.)

<b>General Fund Budget Projection — Scenario 2 (3.0% Appropriations Growth in FY 2021)</b>									
(Dollars in Millions)									
<b>Projected Base Revenue Growth</b>									
	Actual	Est	Est	Est	Est	Est	Est	Est	Est
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
<b>Funds Available:</b>					<b>3.93%</b>	<b>3.52%</b>	<b>3.52%</b>	<b>3.52%</b>	<b>3.52%</b>
Base Revenues <sup>1</sup>	\$ 7,383.9	\$ 7,733.6	\$ 7,848.4	\$ 8,050.0	\$ 8,349.5	\$ 8,649.3	\$ 8,875.3	\$ 9,039.5	\$ 9,251.3
Revenue Adjustments - Tax Law Changes	0.0	-0.2	-9.3	-16.2	5.7	-75.8	-143.2	-102.8	-39.7
Subtotal	7,383.9	7,733.4	7,839.1	8,033.8	8,355.2	8,573.5	8,732.1	8,936.7	9,211.6
Surplus Carryforward	0.0	71.0	76.7	187.7	249.5	381.3	466.7	426.8	295.8
<b>Total Funds Available</b>	7,383.9	7,804.4	7,915.8	8,221.5	8,604.7	8,954.8	9,198.9	9,363.5	9,507.3
<b>Expenditure Limitation</b>									
	7,837.4	8,141.2	8,521.2	8,869.1	9,111.5	9,274.1	9,415.2		
<b>Appropriations<sup>2</sup></b>	7,261.1	7,361.8	7,643.7	7,934.8	8,196.7	8,467.1	8,746.6	9,035.2	9,333.4
Estimated Medicaid Supplemental	0.0	168.6	60.0	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal	7,261.1	7,530.4	7,703.7	7,934.8	8,196.7	8,467.1	8,746.6	9,035.2	9,333.4
Cash Reserve Fund Appropriation	0.0	113.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Appropriations</b>	7,261.1	7,643.5	7,703.7	7,934.8	8,196.7	8,467.1	8,746.6	9,035.2	9,333.4
Reversions	-4.5	-5.2	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
<b>Net Appropriations</b>	7,256.6	7,638.3	7,698.7	7,929.8	8,191.7	8,462.1	8,741.6	9,030.2	9,328.4
<b>Ending Balance - Surplus</b>	\$ 127.3	\$ 166.1	\$ 217.1	\$ 291.7	\$ 413.1	\$ 492.6	\$ 457.3	\$ 333.3	\$ 179.0
<b>Under (Over) Expenditure Limitation</b>			\$ 133.7	\$ 206.4	\$ 324.5	\$ 401.9	\$ 365.0	\$ 238.9	\$ 81.9
<b>Notes:</b>									
	<sup>1</sup> The Base Revenues for FY 2019 - FY 2021 were set by the Revenue Estimating Conference in March 2019.								
	<sup>2</sup> The projected growth rate for appropriations for FY 2022 – FY 2026 is 3.3%.								

### APPENDIX C (Cont.)

<b>General Fund Budget Projection — Scenario 3 (4.0% Appropriations Growth in FY 2021)</b>												
(Dollars in Millions)												
<b>Projected Base Revenue Growth</b>			3.93%		3.52%		3.52%		3.52%		3.52%	
Actual	Est	Est	Est	Est								
FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2026	FY 2026	FY 2026	FY 2026
<b>Funds Available:</b>												
Base Revenues <sup>1</sup>	\$ 7,383.9	\$ 7,733.6	\$ 7,848.4	\$ 8,050.0	\$ 8,349.5	\$ 8,649.3	\$ 8,875.3	\$ 9,039.5	\$ 9,251.3			
Revenue Adjustments - Tax Law Changes	0.0	-0.2	-9.3	-16.2	5.7	-75.8	-143.2	-102.8	-39.7			
Subtotal	7,383.9	7,733.4	7,839.1	8,033.8	8,355.2	8,573.5	8,732.1	8,936.7	9,211.6			
Surplus Carryforward	0.0	71.0	76.7	187.7	172.5	256.7	326.0	303.4	225.1			
<b>Total Funds Available</b>	<b>7,383.9</b>	<b>7,804.4</b>	<b>7,915.8</b>	<b>8,221.5</b>	<b>8,527.7</b>	<b>8,830.2</b>	<b>9,058.2</b>	<b>9,240.1</b>	<b>9,436.7</b>			
<b>Expenditure Limitation</b>												
			7,837.4	8,141.2	8,444.1	8,744.5	8,970.8	9,150.7	9,344.6			
<b>Appropriations<sup>2</sup></b>												
Estimated Medicaid Supplemental	7,261.1	7,361.8	7,643.7	8,011.8	8,244.2	8,483.3	8,729.3	8,982.4	9,242.9			
Subtotal	0.0	168.6	60.0	0.0	0.0	0.0	0.0	0.0	0.0			
Cash Reserve Fund Appropriation	7,261.1	7,530.4	7,703.7	8,011.8	8,244.2	8,483.3	8,729.3	8,982.4	9,242.9			
<b>Total Appropriations</b>	<b>0.0</b>	<b>113.1</b>	<b>0.0</b>									
Reversions	-4.5	-5.2	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0			
<b>Net Appropriations</b>	<b>7,256.6</b>	<b>7,638.3</b>	<b>7,698.7</b>	<b>8,006.8</b>	<b>8,239.2</b>	<b>8,478.3</b>	<b>8,724.3</b>	<b>8,977.4</b>	<b>9,237.9</b>			
<b>Ending Balance - Surplus</b>	<b>\$ 127.3</b>	<b>\$ 166.1</b>	<b>\$ 217.1</b>	<b>\$ 214.7</b>	<b>\$ 288.5</b>	<b>\$ 351.9</b>	<b>\$ 333.9</b>	<b>\$ 262.6</b>	<b>\$ 198.8</b>			
<b>Under (Over) Expenditure Limitation</b>			\$ 133.7	\$ 129.3	\$ 199.9	\$ 261.2	\$ 241.6	\$ 168.3	\$ 101.7			
<b>Notes:</b>												
<sup>1</sup> The Base Revenues for FY 2019 - FY 2021 were set by the Revenue Estimating Conference in March 2019.												
<sup>2</sup> The projected growth rate for appropriations for FY 2022 – FY 2026 is 2.9%.												